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SOUTH AFRICAN IMPEDIMENTS TO IMPORTS FROM NEIGHBORING COUNTRIES

Summary

1/6 **South Africa has had some success in balancing its desire for stronger economic ties to its neighbors with its own penchant for autarky. The customs union agreement with Botswana, Lesotho and Swaziland allows Pretoria considerable latitude to restrict their sales to South Africa. Moreover, informal quotas and South Africa's incentives for industrial decentralization have constrained further the limited potential of these three countries to export manufactured goods to South Africa. In the case of Zimbabwe, on the other hand, the potential to penetrate South African markets is much greater and is governed by a preferential trade agreement that allows relatively free access for most of Zimbabwe's exports but places restrictive quotas on such goods as tobacco and many types of clothing.** [redacted] 25X1

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Southern African Customs Union

1/6 Botswana, Lesotho and Swaziland (the so-called BLS countries) in theory have relatively free access to South African markets through their membership with South Africa in the Southern African Customs Union (SACU). The nominal purpose of the customs union is to eliminate internal

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tariffs or quantitative restictions on the flow of goods between its members. The 1969 agreement* that created SACU specifies its objective as encouraging "the development of the less advanced members of the customs union and the diversification of their economies." At present, we estimate that 18 percent of the BLS countries' exports go to South Africa, including the bulk of their manufactured exports. 25X1

Despite the implication that the customs union is intended to promote the industrialization of the BLS countries, South Africa has considerable latitude for restricting competition with its own industries. The SACU agreement eliminates tariffs or quantitative restrictions on trade between its members only when the intent of the restriction had been strictly protectionist. Thus, South Africa (or any of the BLS countries) could apply a law restricting the importation of a good for strategic, social or other reasons. Moreover, the agreement states that whenever one of the countries regulates the marketing of an agricultural commodity, its imports of that commodity from within SACU will be regulated by the same mechanism on an "equitable basis." Each country is the final arbiter of how these rules will be applied to its own imports. 25X1

Non-Customs Impediments

The most important South African impediment to BLS penetration of its markets, in our judgment, is the "industrial decentralization" policy that South Africa has applied to its black "homelands." South Africa's industrial decentralization incentives subsidize homelands industries, thus allowing them to undercut similar goods imported from the BLS countries. Additionally, the subsidized homelands industries and Pretoria's promise of considerable funds for improving the infrastructure of the homelands divert investment from the BLS export industries to South Africa. In our judgment, none of the BLS countries can afford to match South Africa's industrial subsidies.** 25X1

* An earlier version of the customs union dates back to 1910. 25X1

** Despite these impediments to penetration of South African markets, we believe that there is some countervailing tendency toward South African investment in BLS export industries to gain their preferential access to European markets. Many of these South African-financed enterprises also export to South Africa. While we cannot measure accurately these flows and their impact, we believe that the net effect works against the BLS countries and in favor of South Africa. 25X1

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Impact on BLS Export Sector

Botswana. A wide range of financial incentives for domestic and foreign private investment, and the inducement of duty-free access to the South African market, have been largely ineffective in attracting new investment to export industries in Botswana. Botswana and Lesotho are more constrained than Swaziland by severe shortages of skilled manpower, small domestic markets, limited raw materials and underdeveloped infrastructures, especially water, electric power and transport. Production costs are high and the bulk of Botswana exports is limited to diamonds, meat, copper-nickel matte and some textiles; thus, there are few potential exports for South Africa to impede, save for a 200 ton per week quota on meat imports from Botswana, according to press reports. 25X1

One promising investment in Botswana that requires Pretoria's cooperation involves the development of large soda ash deposits for export to South Africa. British Petroleum has begun the initial phases of an investment of over $300 million, but Pretoria, which is a potential partner in the construction of associated transport systems, has attempted to link its involvement to Botswana's willingness to sign a formal security accord. Gaborone's determination to proceed with the project and Pretoria's interest in obtaining a low-cost source of soda ash for its glass, aluminum and paper industries suggest that the two countries will find a compromise. 25X1

Lesotho. South Africa's industrial decentralization policy probably has diverted some manufacturing from Lesotho. According to the World Bank, several small companies have relocated from Lesotho to the South African homelands. The World Bank also reports that a recent study of Lesotho's industrial incentives relative to those of other countries in southern Africa has concluded that while they are superior to those in Zimbabwe and Swaziland, they are significantly less competitive than those offered in Botswana and in the homelands. The study further concludes that Lesotho does not have the resources to match the homeland incentives.* 25X1

Swaziland. In our judgment, Swaziland has had a greater potential to produce for the South African market than Botswana or Lesotho. Manufacturing accounts for 23 percent of domestic national income in Swaziland, compared to 9 percent in Botswana and 5 percent in Lesotho.

* In addition to the impacts of industrial decentralization, Lesotho may suffer from the aftereffects of pressures which the Embassy reports were brought by businesses in South Africa during the early 1970s to halt proposed projects in Lesotho that might have threatened South African business interests. 25X1

The range of Swazi exports also is greater, including food and forestry products, chemical fertilizers, asbestos and electronic equipment. South Africans control many of Swaziland's industries, as investors have been attracted by low labor costs, investment incentives, weak trade unions, and political stability. South Africa is the major buyer of Swazi woodpulp and virtually the only importer of Swazi electronic equipment and chemicals. [redacted] 25X1

We believe that South Africa's industrial decentralization incentives have had a greater impact on Swaziland than on Botswana or Lesotho, largely because of Swaziland's greater export potential. One firm, Swazi Carpets, has moved its entire operation to the Ciskei homeland, while a second also has moved to Ciskei leaving only a skeletal operation in Swaziland. According to an academic study of the Swazi economy, the South African industrialist Natie Kirsch has abandoned plans to construct a major textile plant in Swaziland employing several hundred workers in favor of a site in the Eastern Cape-Ciskei area. Kirsch has stated that the decentralization incentives are "killing industry in Swaziland." According to IMF analysis, however, it would not be desirable for Swaziland to attempt to match South Africa's industrial decentralization incentives, because the cost of the incentives would outweigh any economic benefits. [redacted] 25X1

Zimbabwe

Zimbabwean trade with South Africa is governed by a preferential trade agreement signed between (then) Rhodesia and South Africa in 1964. The agreement provides duty-free or reduced-tariff access to South African markets for many of Zimbabwe's exports, including furniture, motors, radios, and some clothing and textiles. A number of other exports, however, are allowed entry into South Africa only under restrictive quotas which originally were designed to maximize the diversity of Rhodesian exports while minimizing the disruptive effect on South African industry. [redacted] 25X1

Those quantitative restrictions imposed by the trade agreement have not prevented Zimbabwe from establishing a small, but broadly-based, foothold in South African markets. Some 18 to 20 percent of Zimbabwe's exports go to South Africa, including 70 percent of its manufactured exports. South African manufacturers periodically have complained about competition from Rhodesia or Zimbabwe. In 1968, pressure by South African business interests led the two governments to impose additional ceilings on a few products, including radios and clothing. South Africa served notice to Zimbabwe in March 1981 that it planned to terminate the preferential trade agreement 12 months later. The end of the trade agreement would have made many of Zimbabwe's exports noncompetitive in South Africa. According to press reports, Pretoria has decided to keep the preferential trade agreement in force pending negotiation of a new

trade agreement more favorable to South African business interests. Any substantial increase in Zimbabwean penetration of South African markets is likely to trigger increased pressure on Pretoria to terminate the agreement. 25X1

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